



13th March 2013

Thomas Cook Group plc

NEW GROWTH STRATEGY AND UPDATED PROFIT IMPROVEMENT PLANS

The Thomas Cook Group plc today announces its new profitable growth strategy, focused on simplification, web innovation, flexible new products and services, enabled by rigorous execution and an integrated IT platform. Building on its trusted brand and 171 year heritage Thomas Cook will deliver personalised holiday experiences through a high-tech, high-touch approach.

Financial Highlights

Business Transformation gaining momentum. A further £50m of cost-out actions identified bringing the total profit improvement actions so far to £350m with more to come.

Significant progress achieved in embedding improved working capital management practices contributing to c£150m improvement in average working capital.

UK Turnaround on track; thorough UK restructuring underway to re-shape the organisation to meet customer need with a target to deliver UK EBIT margin in excess of 5% by FY15.

Northern and Central Europe continue to build on their industry leading positions.

Executing on one Group-wide Airline Segment, improving costs, quality, reliability and customer experience to build a stronger business.

Transformed approach to hotel purchasing to utilise Group scale, already delivering tangible benefits.

Non-core disposal programme underway with the opportunity to realise gross proceeds of £100-£150m.

Strategic Highlights

A Strategy of simplification, focused on delivering **trusted, personalised** holiday experiences delivered through a **high-tech, high-touch** approach.

New strategy has been based upon extensive research and analysis including a comprehensive, in-depth survey measuring the attitudes and changing needs of almost 18,000 travellers, validated against the experiences of many of Thomas Cook's own customers.

Clear metrics developed to measure and report on progress, with the following measures established:

FY15 Targets

- New product revenue > £500m

- Increase Group web penetration to > 50%
- Cost Out/profit improvement of £350m

FY15 KPI's

- Sales increasing at CAGR > 3.5%
- Underlying Gross margin improvement >1.5%
- UK EBIT margin >5%
- Cash Conversion of >60%

The strategy will deliver on-going product and service innovation through four major initiatives:

- Expand our successful, proven international hotel concepts across our markets
- Creating a new portfolio of flexible, trusted, products and services
- Creating a single, consistent, omni-channel gateway for customers to access personal recommendations from our extensive range of products and services
- All underpinned by the powerful Thomas Cook brand and an integrated IT platform

Outlook

Following the positive trends outlined in the Q1 IMS trading continues to be robust and summer trading is progressing well with improved margins. The outlook for the full year continues to be encouraging, underpinned by the on-going delivery of the Group's Transformation actions.-

Harriet Green, Group CEO Thomas Cook Group plc said:

“Our Business Transformation plans are ahead of schedule and already delivering substantially improved performance, which resulted in our recent return to the FTSE 250. We have exceeded our initial commitments and today announced a further £50m of cost out actions, bringing the total profit improvement actions identified already to £350m, £290m of which is still to come. Stabilising the business has been our priority through addressing our cost and cash challenges, and strengthening the leadership team to create a more effective, aligned organisation focused on rigorous execution.

We are excited to now reveal our new strategy based on four cornerstone principles; delighting customers with trusted, personalised holiday experiences through a high tech, high touch approach. Based on comprehensive consumer research we aspire to occupy a unique position in the market through our new strategy, deliver industry leading margins and customer loyalty, whilst maintaining consistent quality that can be trusted. We will expand our already successful hotel concepts; and build a new portfolio of flexible, trusted products and services; creating a single gateway for customers to access personalised recommendations, specifically tailored to meet their needs.

The operational credibility of this strategy rests on the success of our self-help measures to date, our trusted brand and the clear targets and KPI's against which we are ready to be judged. We have real

options now, with the prospect of delivering improved revenues, strengthened gross margin, better cash flow and disposal opportunities, to build a strong and exciting future for the Thomas Cook Group, worthy of our customers and our heritage”

The Group is holding a Capital Market's Morning today, March 13th, during which this information will be discussed with investors and analysts. A video of the presentations will be posted on the newly launched Group website later. www.thomascookgroup.com

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Chief Executive's Statement

Thomas Cook is fundamentally a sound business with revenues of £9.5 billion in the financial year ending September 2012 and, with a strong market position in each of our source markets: we already feature as number one or two in our core markets of the UK, Continental Europe, and Northern Europe. Our business model has consistently delivered strong gross margins in excess of 20%, demonstrating the trust and the value that the 23 million customers who travelled with us in 2012, place upon our products.

The Business Transformation of the last six months has delivered results substantially ahead of expectations through a clear focus on the priorities, simplification of approach, and the acceleration of the initiatives already underway. The Transformation actions of the last 6 months have been focused on addressing costs and cash, building an effective organisation and creating a strategy for the future. As the Group looks to a brighter future we are now announcing the adoption of a new profitable growth strategy.

Addressing Costs and Cash

After a period of turbulence, the immediate priority last summer for the new executive leadership was to address the Group's cost and cash challenges and create a foundation from which we could launch a new and differentiated strategy capable of delivering sustainable, profitable growth.

The business has been stabilised as a result of decisive self-help action and the execution of rigorous Transformation Initiatives by the new management team.

In 2011, we announced our UK Turnaround plan which identified £140m of EBIT improvements. In February 2012 we announced £60m of improvements to be delivered by the end of September 2012. We are today announcing that we are on track to deliver the remaining £80m by the end of FY15. In November 2012 a further £100m of cost savings and profit improvements were identified at Group level and in the Q1 IMS in February 2013 this target was increased to £160m.

Today we are announcing a further £50m of identified cost savings and profit improvements bringing the total cost out and profit improvement plans to £350m of which £60m was delivered in FY12. We aim to deliver the remaining £290m by the end of FY15.

The UK is being radically restructured to deliver savings and better decision making, following the appointment of Peter Fankhauser as UK & Ireland CEO on 1st November 2012, in addition to his responsibilities for Continental Europe. Peter has leveraged the experience of the earlier transformation of the German business and has rapidly restructured the UK business. The focus has been on actions to unlock our core brand strength in the UK, by simplifying the organisation structure at all levels, streamlining processes and decision making. Business locations are being consolidated to reduce real estate costs and to support operational excellence and earlier this month the UK business announced it was commencing consultation with employees with the expected reduction of 2,500 jobs. Even with the proposed reduction of 195 stores we will remain the principal travel brand on the High Street with 874 stores remaining, and approximately 13,000 full-time UK employees poised to deliver a quality, high touch experience.

The Group-wide approach to hotel purchasing has been innovative, allowing us for the first time to pool requirements and leverage scale while simultaneously offering those scale benefits to our hotel partners. All of the decisions will be data driven and enabled by a comprehensive data cube of the Group's purchasing and product data so that issues identified are either fixed, or the under-performing and unprofitable hotels are eliminated from the offering – even if they are popular with customers.

This new approach to hotel purchasing covers our group-wide relationship with our strategic hotel partners. The benefit is that we can roll out concepts faster, and optimise operations for both ourselves and our hotels partners. It also offers us the full advantage of the Group purchasing scale. 24% of our agent contract spend is currently being renegotiated with a view to achieving improved terms on quality and reliability of service along with improved value for money.

These improvements in hotel purchasing – along with the decisions we have taken in restructuring our UK, web and airlines businesses – have supported our achievements in cost out so far and have built a strong foundation for our business.

Following the restructuring of our web business and the introduction of the Ecommerce Centre of Excellence and the Digital Advisory Board each segment now has responsibility for the integration of all of the channels through which a customer may interact with our business. This has substantially strengthened the omni-channel approach across the Group, eliminating inter-channel competition while preserving Group-wide excellence in online technology, marketing, customer experience, and content development.

The decision we have taken to create a Group-wide airline segment will deliver improved customer' service and operational savings. This also brings significant scale advantages, making the combined Thomas Cook airline the 11th largest airline in Europe. It also delivers increased flexibility from crew and fleet swapping and, improved operational excellence. We are also taking steps to optimise procurement of third party capacity and reviewing the balance between our in-house and third party capacity. We are in parallel discussing ventures, deals, and programmes around the asset-light model to drive symbiotic strategies with other major carriers.

The foundations for the Group's profitable growth strategy are now laid.

Building an effective organisation

Another focus area for our senior team has been the breaking down of the silos that existed within the Group to enable the sharing of best practice. This change has enabled the Business Transformation progress to happen quickly whilst delivering greater synergies and efficiencies. New and objective performance based measurement criteria have been applied across the board as part of a new, relentless focus on performance as the Group looks to create a new culture – that is more agile, responsive and

decisive. New values, ways of working and a comprehensive Code of Conduct have been introduced and the leadership team has been strengthened through a mix of internal promotions and external appointments, with approximately one third of the original management team remaining. Embedding a strong focus on enterprise risk assessment and working effectively together to reshape the organisation will be instrumental in creating the right culture for the future.

Creating a Profitable Growth Strategy

Thomas Cook's new strategy is to drive profitable growth by delighting customers with **trusted, personal** holiday experiences delivered through a **high-tech, high-touch** approach.

To do this we have identified four strategic initiatives based on facts generated from a thorough review of the industry and Thomas Cook's performance within it, including one of the most comprehensive surveys of travellers ever conducted, with in-depth analysis of the attitudes of almost 18,000 people across all our key source markets. Some important conclusions from the review that have shaped our thinking in conjunction with independent insight from the travel needs of its own customers are:

The core Sun and Beach opportunity continues to grow.

The market for package holidays is growing particularly in Germany and Sweden

Some other holiday types that are growing significantly, such as city breaks, are currently only a small part of the Thomas Cook portfolio, and this must change.

The customer survey has led us to conclude that trust, personalisation, high-tech and high-touch are the success factors in travel and consistency and strong brand are the drivers of consumer choice. 93% of travellers either search online or prefer to book online, 70% of travellers want a connected relationship with their supplier that goes beyond just booking and paying for the holiday, whilst 66% of travellers want help and trusted advice to make the right selection and 50% of travellers admitted to feeling overwhelmed by choice and wanted help to navigate the vast amount of information.

In response the Group's new strategy involves four major pillars:

Expand and leverage Thomas Cook's proven **successful, exclusive, and international hotel concepts**. The Group already has successful concepts in Northern Europe and Continental Europe, such as Sunwing, Sentido and the newly internationally-launched Smartline, and these will be expanded. These hotels, which on average earn twice the margin of our other hotels already have a reputation for delighting customers and this powerful customer concept will be at the heart of the Group's competitive advantage. We believe this can be delivered in a cash neutral way over five years by seeking to cover the investment cost from the benefits of closing underperforming hotels and leveraging group scale to secure better rates. We have well developed plans in place to grow the number of passengers in our concept hotels four-fold in the next five years. The precise number of passengers and hotels will evolve as we progress in implementation and we will prioritise some concepts over others as we go based on success.

Product and Service Innovation: This is the creation of a new portfolio of flexible, trusted products and services based on feedback and trends demonstrated through the survey. Today Thomas Cook is announcing the first five innovations in this area with more innovation to come. These are: an increased emphasis on winter sun, a portfolio of dynamic packaged city break holidays, budget quality hotels with great design for the smart traveller, expanding room and flight only booking

capability whilst providing an assurance of quality and a deeper engagement with our customers through a suite of 'high tech services' through community engagement which complements the holiday product portfolio leading to higher conversion rates, improved share of wallet and improved likelihood of repeat purchase.

Single customer gateway: this will enable a consistent, personalised customer experience with access to a full range of products, services and personal recommendations across all channels allowing deeper, more insightful customer relationships which go beyond the booking transaction. A key priority of the Group is to become the leading on-line tour operator with a digital platform that will host a full portfolio of digital products and services. We will reduce our online brands and websites to just three customer facing in the UK and one in Germany, implement functionality enhancements and extend our product offering, increase our investment in offline advertising and search optimisation and invest in customer engagement tools. We aspire to have the highest share of bookings online for a major tour operator to deliver targets per segment by FY15 as follows: UK over 55%; Central Europe over 12% and over 30% by 2016/17; West/East over 40% and Northern Europe and the Airlines by over 75% each.

Execution supported by brand and technology: The Thomas Cook brand, and other leading brands within the Group, engender trust and a commitment to quality. Being named once again the leading sector brand in the Superbrands 2013 survey demonstrates the brand strength and proud 171 year old history, 60% of those surveyed said it was a brand they grew up with and trust in the brand was 9% higher than the market average. Drawing together the IT capabilities across the Group into a consistent platform that will enable the extension of the Group's dynamic packaging capability to customers in all markets, assist with yield management across the portfolio and create a seamless, unified, multi-channel customer interaction experience across mobile, web, and in store will add considerable value. We are building the capability to support personalised customer interaction through micro segmentation, social media integration, and powerful recommendation analytics. The IT investment plan is based on using verified, proven capabilities and systems that already exist within the Group and rolling them out to other parts of the Group. The annual investment required for this IT programme over three years is approximately £60m (compared to the investment made between FY10 – FY12, of approximately £55m p.a.) with significant benefits as it underpins the delivery of other key parts of the strategy.

Timeframe

Implementation of this strategy will be carefully phased over the next five years to balance the desire for rapid improvements where possible against the necessary lead times for major infrastructure projects (for example in relation to concept hotels) and the Group's investment requirements. Over the next two years Thomas Cook expects to expand on our concept hotels, and introduce the first wave of new products, including the scale-up of dynamic packaging capabilities. Web penetration is expected to climb as the single gateway and ancillary propositions develop. Thereafter, the concept expansion will continue, the quality- assured inventory will grow and the single gateway will reach maturity.

Clear targets and KPI's established

We have set clear performance targets and KPI, as shared in the Strategic Highlights to measure the impact of the new strategy over the medium term. There are clear targets for each pillar of the strategy and we will use these to transparently monitor our progress.

Capital Structure

Having now established our profitable growth strategy, we will review our capital structure, taking into account the opportunity we have to improve cash generation of the group through our profit improvement

programme, further working capital improvements and possible non-core asset disposals. When that review is complete we will decide on what action we should take, if any, including whether to raise new debt and/or equity capital and the amount and structure of any such capital raising.

Outlook

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Appendix

The information in this Appendix will be included in the presentation to be given at the Capital Markets Morning on 13 March 2013.

Details of cost out savings and profit improvement programme

	FY12 £m	FY13 £m	FY14 £m	FY15 £m
UK Turnaround	60	120	140	140
Group-wide cost out	-	25	155	210
- integrated air travel strategy	-	6	55	65
- Organisational structure	-	7	45	55
- Product, infrastructure, technology and other	-	12	55	90
Total targeted benefits	60	145	295	350
Expected costs to achieve				
- Income statement	36	76	12	2
- Cash flow	30	61	62	10

Reduced duplication and efficiency improvements across airlines

	Targeted benefits, FY15 £m
Maintenance	16
- Reducing from 4 to 1 organisations	
- Consolidating to one IT system	
- One maintenance system per aircraft type	
- Aligning all supplier contracts	
- Align and increase productivity in crew	

Overhead and crew	<ul style="list-style-type: none"> - across airlines - Optimise crew costs through new agreements - Centralisation of overhead functions 	14
Increased revenues	<ul style="list-style-type: none"> - Codeshare between Condor and UK - Increased ancillary revenues 	23
Other	<ul style="list-style-type: none"> - Savings from aircraft costs, fuel, ground handling 	12
Total		65m
Expected cost to achieve		7m

Improving organisational Structure and footprint

Optimisation principles	Examples of our initiatives
1 Reducing layers of management between CEO and customer and increasing spans of control	<ul style="list-style-type: none"> - Streamlining our back office functions in West through integration within - Moving the Group offices to lower cost premises
2 Optimising organisation around our business needs, not past acquisitions	<ul style="list-style-type: none"> - Reducing number of UK back office locations from 18
3 Adjust our distribution to align with where our customers want to me us	<ul style="list-style-type: none"> - Consulting on further reducing our UK store network by 195 stores to 874 stores - Delivering omni-channel customer experience
FY15 benefit target = £55m	
Expected cost to achieve = £41m	

Streamlining our product, infrastructure and technology

		Targeted benefits, FY15 £m
Product	<ul style="list-style-type: none"> - Leveraging group scale to renegotiate hotel contracts - Renegotiating agent contracts to improve terms on quality and reliability of services while improving value for money 	44
Marketing	<ul style="list-style-type: none"> - Consolidated media buys for UK, now initiating CE - Joint print tender to reduce brochure costs 	18

	- Improved brochure distribution	
IT	- Consolidating application landscape across UK and CE	
	- Rationalising our websites across the Group	17
	- Combining IT teams across 3 regions and 3 independent brands into one global IT organisation	
Overhead costs	- Travel, offices and other overheads	11
Total		90
Expected cost to achieve		27

Information on the TC Group Airline

Number of aircraft	86
Number of employees	6,500
FY 2012 revenue (including seat only and third party)	£2.8bn
FY 2012 spend on air capacity	£3.1bn
- Schedule	22%
- Charter	23%
- In-house	55%

Targets and KPIs

		FY12	FY15
Targets	New Product Revenue	-	> £500m
	Web Penetration	34%	> 50%
	Cost out / Profit Improvement	£60m	> £350m
KPIs	Sales CAGR ¹	-	> 3.5%
	Underlying Gross Margin Improvement ²	-	> 1.5%
	UK EBIT Margin	Nil	> 5%

Cash Conversion ³	11%	> 60%
1. CAGR from FY13 to FY15 including new product revenue		
2. Underlying gross margins, adjusted for disposal and store closures		
3. Free cash flow post exceptionals and before capital expenditure/EBITDA		